

Preface

Housing start is considered to be a lead indicator in many developed and developing economies because of the strong forward and backward linkages it has with various sectors. The number of housing starts during a given period reflects the institutional response in a country to the current demand and supply situation in the market, as reflected through operationalisation of the existing building permits into actual starts. This has an impact not only on the construction activities but also on several consumer durables and investment goods sector of the economy.

The decision to set up a Technical Advisory Group (TAG) by the Reserve Bank of India to consider bringing out Housing Start up Index (HSUI) on a regular basis is extremely timely. This is particularly so because the current meltdown of the economy at global level as also in many less developed countries have been linked partially to the 'developments' in the housing sector. Indeed, these have powerful multiplier effects on the economy, operating through the intersectoral linkages in the production system. It makes a significant impact on financial sectors as well, as has been realized with some amount of concern, in recent months.

The members of the TAG consider construction of HSUI and its regular release to be an extremely important and challenging responsibility which has been long overdue. They plead for taking urgent measures to put into operation an institutional structure entrusted with the responsibility of bringing out HSUI, keeping in view the global practices as also the ground reality of India into consideration. This indeed, can become a powerful tool for monitoring the movements in several segments of the economy.

The start up coefficients, computed from the data in recent past, reflect institutional and social response to housing permits, in terms of their conversion into actual housing starts. The time required for administrative and procedural clearances after the issuance of permits, to complete the formalities of obtaining loans, organizing materials, construction process etc. can be considered to be somewhat rigid or fixed in the short run. As housing is a long term decision, predictions based on these coefficients, that reflect procedural and social rigidities governing the house construction process, are likely to be fairly reliable.

Understandably, the actual housing starts at any point of time are likely to be influenced by a host of other factors like price of building material, interest rates in general and that for housing loans, policy pronouncements, legislations, administrative orders affecting construction sector etc. To an extent, these would affect the demand and supply parameters in the housing market that, in turn, would determine the number of application for permits. The institutional response - in terms of the number of permits actually issued - would have some time lag. It is nonetheless clear that market based factors would get incorporated in the

computation of the index through the key variable – the number of permits issued in recent past, say the last two years.

The TAG believes that the HSUI can be used by housing related agencies as the basic or core predictor. These agencies can combine the values of this index with other short term indicators and policy variables to arrive at more detailed projections of housing activity, if they so desire.

Let me put on record my gratitude for the keen interest and enthusiasm with which the TAG members have participated in the deliberations and finalisation of the Report. The analytical insights and meticulous care with which they have commented on the conceptual and methodological issues and examined technical aspects of data availability and reliability in the meetings as also through internet communication have been commendable. It is only because of the full cooperation of the members that the complex methodological issues as also those related to institutional grounding could be resolved and the Report submitted within a short time.

The members of TAG would put on record sincere thanks to Dr. Rakesh Mohan, Deputy Governor, Reserve Bank of India for envisaging the need of this exercise and providing valuable insights and suggestions during the entire period of the Group's functioning. Special thanks are for the Directorates of Economics and Statistics (DES), Tamil Nadu, Maharashtra and Delhi that conducted the pilot survey. Thanks are due to the core team comprising Mr. Sanjoy Bose, Director, Dr. A.K. Tripathi, Director, Ms. Sushila Augustine, Director and Mr. Joice John, Research Officer of Department of Statistics and Information Management, RBI for shouldering the total responsibility of analyzing the survey results and preparing the draft of the Report. My special words of appreciation for Ms. Sushila Augustine and Mr. Joice John who always responded to various queries and suggestions without any delay. Our gratitude is to Dr. Amal Kanti Ray, Officer-in-Charge, Department of Statistics and Information Management, RBI for creating an excellent environment and facilities in overseeing the pilot survey, coordinating the Group meetings and making extremely valuable suggestions.

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